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SUBJECT: LA UNION PORT: A WHITE ELEPHANT IN THE MAKING?

REF: 08 SAN SALVADOR 1333

**¶11. (U)** Summary. Four months after its inauguration, El Salvador's \$187 million La Union port project remains in limbo due to a political deadlock over who will manage the port. The ruling ARENA party was unable to secure approval for a proposed port concession due to opposition from parties favoring state control of the port. President-elect Mauricio Funes will be pressured by FMLN supporters to maintain state control of the port but the port authority does not have the resources or experience needed to develop the port. Operation of the port may also be affected by serious dredging problems that could increase maintenance costs for the access canal. The failure to agree on port management is a serious setback to El Salvador's strategy of developing a regional logistics hub. Repayment of port project loans will also drain port authority resources and could delay other infrastructure investments. End Summary.

PRIVATE PORT CONCESSION BLOCKED

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**¶12. (U)** During a January 21 ceremony, President Saca inaugurated "El Puerto de La Union Centroamericana" (the Port of the Central-American Union) a play on the nearby city of La Union and El Salvador's plan to develop the port as a regional logistics hub. As the only Pacific port between Panama and Mexico capable of receiving post-Panamax vessels, La Union has a strategic role in El Salvador's plans to develop a regional logistics hub and dry canal linking it with Caribbean ports in Honduras and Guatemala.

**¶13. (U)** Since its inauguration, the port has languished as the GOES failed to obtain legislative approval for two proposals to allow a private company to develop and manage the port (see reftel). After the first draft concession law failed to gain legislative approval in 2008, President Saca created a special commission to evaluate port management options and modify the proposed concession. The commission estimated that the port would require investments of \$550 million during the next 25 years and concluded that a private port operator would be more capable of funding the project and operating the port most efficiently. In the near term, the port authority (CEPA) estimates that the port operator would need to invest \$70 million during the first four years of operation, to purchase post-Panamax cranes and develop port infrastructure. The commission's new proposal, which would retain a 10% government stake in the port, also failed to pass through the Assembly.

**¶14. (U)** Legislative opposition was led by (left-wing) FMLN supporters of President-elect Funes who argued that the GOES should retain at least a 51% share in the port. Funes echoed this view during his campaign, but he is reportedly considering the appointment of a respected former ARENA finance minister Guillermo Lopez Suarez to run CEPA. Members of the center-right PCN party, normally allied with the ruling ARENA party, joined the FMLN in opposing the proposed concession. Sources close to ARENA reported that PCN leaders negotiated for a leading role in managing the new port in

exchange for supporting the ARENA candidate in the March 15 Presidential election. ARENA Vice-Presidential candidate Arturo Zablah (a former president of CEPA) was also in favor of the State retaining majority control over the port. However, the only other sea port in the country, in Acajutla, has been poorly managed by CEPA. Further, CEPA has no experience in attracting the type of international shipping business it hopes to develop for the La Union port.

#### DREDGING ISSUES

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**15.** (SBU) The operation of the port may also be affected by problems in maintaining the 8-mile access channel. CEPA filed an arbitration case against a Japanese-Belgian consortium responsible for dredging and construction of the access channel, after finding that the silting rate and maintenance costs were far higher than expected. The Maritime Port Authority (AMP) solicited technical assistance from the U.S. Army Corps of Engineers (USACE) to determine what canal improvements and maintenance would be needed to ensure port access. A Japanese firm later agreed to conduct this assessment, but AMP still wants USACE to give an objective opinion on access canal issues. In preparation for the June 2009 visit of the U.S.S. Comfort to La Union, the U.S. Navy completed a study of the canal that will provide baseline information to help assess the silting rate.

#### FINANCIAL BURDEN ON CEPA

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**16.** (U) With no near-term prospect of generating revenue from La Union port, CEPA has begun to make monthly payments of \$1 million, over 10% of CEPA's annual budget, for security, maintenance and repayment of project loans. Most of these costs are going to repay loans of \$130 million from the Japan International Cooperation Agency and \$30 million from the Central American Investment Bank to fund the project. As these expenses have stretched its limited revenues, CEPA has postponed several minor airport improvement projects and closed El Salvador's international airport at night to cut costs.

#### COMMENT

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**17.** Although Funes will face pressure to retain state control of the port, it is not clear where CEPA or the government will secure the funding needed to develop the port. It is also unlikely that private port operators will agree to develop the port without gaining control of the business. The reported selection of Guillermo Lopez Suarez to manage CEPA may signal that Funes may be open to seeking a pragmatic solution to ensure development and management of the port. A port concession could advance further Funes' stated priority of job creation to confront the economic crisis. However, even if they consider a modified port concession they will still face the same challenge of getting legislative approval with Funes' own supporters continuing to favor state control. As the impasse drags on, El Salvador is losing a major strategic opportunity to capitalize on this \$187 million investment.

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